NOMINATIONS OF JOHN E. CHAPOTON, ROSCOE L. EGGER, JR., AND PAUL C. ROBERTS

HEARING

BEFORE THE

COMMITTEE ON FINANCE UNITED STATES SENATE

NINETY-SEVENTH CONGRESS

FIRST SESSION

ON

NOMINATIONS OF

JOHN E. CHAPOTON, TO BE ASSISTANT SECRETARY OF THE TREASURY FOR TAX POLICY; ROSCOE L. EGGER, JR., TO BE COMMISSIONER OF INTERNAL REVENUE; AND PAUL C. ROBERTS, TO BE ASSISTANT SECRETARY OF THE TREASURY FOR ECONOMIC POLICY

MARCH 5, 1981

Printed for the use of the Committee on Finance

U.S. GOVERNMENT PRINTING OFFICE
75-714 O WASHINGTON : 1981 HG 97-9

COMMITTEE ON FINANCE

ROBERT J. DOLE, Kansas, *Chairman*

BOB PACKWOOD, Oregon
WILLIAM V. ROTH, Jr., Delaware
JOHN C. DANFORTH, Missouri
JOHN H. CHAFEE, Rhode Island
JOHN HEINZ, Pennsylvania
MALCOLM WALLOP, Wyoming
DAVID DURENBERGER, Minnesota
WILLIAM L. ARMSTRONG, Colorado
STEVEN D. SYMMS, Idaho
CHARLES E. GRASSLEY, Iowa

RUSSELL B. LONG, Louisiana
HARRY F. BYRD, Jr., Virginia
LLOYD BENTSEN, Texas
SPARK M. MATSUNAGA, Hawaii
DANIEL PATRICK MOYNIHAN, New York
MAX BAUCUS, Montana
DAVID L. BOREN, Oklahoma
BILL BRADLEY, New Jersey
GEORGE J. MITCHELL, Maine

ROBERT E. LIGHTHIZER, *Chief Counsel*
MICHAEL STERN, *Minority Staff Director*

CONTENTS

Nominees

Additional Information

NOMINATIONS OF JOHN E. CHAPOTON, TO BE ASSISTANT SECRETARY OF THE TREASURY FOR TAX POLICY; ROSCOE L. EGGER, JR., TO BE COMMISSIONER OF INTERNAL REVENUE; AND PAUL C. ROBERTS, TO BE ASSISTANT SECRETARY OF THE TREASURY FOR ECONOMIC POLICY

THURSDAY, MARCH 5, 1981

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, D.C.

The committee met pursuant to notice at 9:30 a.m., in room 2221 Dirksen Senate Office Building, Hon. Bob Packwood (acting chairman) presiding.

Present: Senators Packwood, Chafee, Durenberger, Symms, Grassley, Long, Byrd, Bentsen, Baucus, Boren, Bradley, and Mitchell.

[The press release announcing this hearing and Senator Packwood's opening statement follow:]

[Press release: No. 81-108—Mar. 2, 1981]

FINANCE COMMITTEE SCHEDULES HEARINGS ON NOMINATIONS OF JOHN E. CHAPOTON TO BE ASSISTANT SECRETARY OF THE TREASURY FOR TAX POLICY; ROSCOE L. EGGER, JR., TO BE COMMISSIONER OF INTERNAL REVENUE; AND PAUL CRAIG ROBERTS TO BE ASSISTANT SECRETARY OF THE TREASURY FOR ECONOMIC POLICY

The Committee on Finance announced today that it has scheduled hearings on the nominations of John E. Chapoton to be Assistant Secretary of Treasury for Tax Policy, Roscoe L. Egger, Jr. to be Commissioner of Internal Revenue and Paul Craig Roberts to be Assistant Secretary for Economic Policy.

The hearings are scheduled for March 5, 1981, beginning at 9:30 a.m. They will be held in Room 2221, Dirksen Senate Office Building.

Immediately following the hearings, the Committee will meet in executive session to consider the nominations of Messrs. Chapoton, Egger, and Roberts.

Written testimony.—The Committee will be pleased to receive written testimony from those persons or organizations who wish to submit statements on the nominations for the record. Statements submitted for inclusion in the record should be typewritten, not more than 25 double-spaced pages in length and mailed with five (5) copies by March 5, 1981, to Robert E. Lighthizer, Committee on Finance, Room 2227, Dirksen Senate Office Building, Washington, D.C. 20510.

STATEMENT OF SENATOR PACKWOOD

NOMINATION OF PAUL CRAIG ROBERTS TO BE ASSISTANT SECRETARY OF THE TREASURY FOR ECONOMIC POLICY

I would like to welcome to the Finance Committee Paul Craig Roberts, who has been designated Assistant Secretary of the Treasury for Economic Policy. I believe we are all familiar with his biography. We know of his wide-ranging academic experience, including his present position as Senior Fellow in Political Economy at the Georgetown Center for Strategic and International Studies. Craig Roberts is no stranger to Capitol Hill, and he has often shared his views on economic policy with us, both in testimony before this committee and in his many published writings. We are glad to have him back with us today in a new capacity.

The committee has reviewed your financial disclosure forms, the summary of the full FBI field investigation and the material that Mr. Roberts filed with the Office of Government Ethics. I am satisfied that there are no problems in this area. I have also received a letter from the Director of the Office of Government Ethics approving of the nominee's compliance with the Ethics in Government Act. That letter will be made a part of the record.

Mr. Roberts, have you discussed possible conflicts of interest with the Committee's Chief Counsel? Have any possible conflicts of interest come to your attention, either as a result of that meeting or otherwise?

Senator PACKWOOD [presiding]. The committee will please come to order.

Today we have before us two nominees for the Treasury Department, and one for Commissioner of Internal Revenue.

The first nominee is John E. Chapoton. Senator Bentsen has indicated that he would like to say a few words of introduction.

Senator BENTSEN. Mr. Chairman, I am delighted to be here to introduce "Buck" Chapoton. I think he will do the job and informing us on the complexities of the tax law with the kind of objectivity and with the kind of depth of knowledge that was in the tradition of Larry Woodworth and Bobby Shapiro. He will come to us, of course, as an advocate for the Treasury, but we will be able to believe him.

He is a man I have known for a long time, a man who comes into public service making a very substantial financial sacrifice, a man who has had experience on the Executive side before, but also understands the depth, complexities and the consequences of tax law. I think he will make a very major contribution.

I am very delighted to be here to introduce what I think is a very distinguished Texan, who is going to have a distinguished career.

Thank you Mr. Chairman. And now, I would like to come up and join the inquisition.

Senator PACKWOOD. Do you have any questions of Mr. Chapoton?

Senator BENTSEN. No.

Senator PACKWOOD. I would like to join Senator Bentsen, in welcoming you. I well remember the work you did in the early years of the Nixon administration. We hope you can bring the kind of talent to this job as Don Lubick did and you know you will be up here, day after day with us. We appreciated him, and I am sure we will appreciate you. I think that we will understand that on occasion you have got to wink and carry the administration's policy, no matter what you might think.

Don probably won about half of his battles. I guess that is not a bad batting average for the position you are in.

Why don't you go ahead and make whatever statement you have and then we will open the floor for questions.

[The biographical data of Mr. John E. Chapoton follows:]

BIOGRAPHICAL SKETCH OF JOHN E. CHAPOTON

I. Education.—1954–55, Washington and Lee University, Lexington, Va. 1958, University of Texas, B.B.A. with honors. 1960, University of Texas School of Law, LL.B. with honors.

II. Background.—July 1972, partner, Vinson & Elkins, Houston, Tex. 1970–72, Tax Legislative Counsel, U.S. Treasury Department, Washington, D.C. 1970, Deputy Tax

Legislative Counsel, U.S. Treasury Department, Washington, D.C. 1969, Associate Tax Legislative Counsel, U.S. Treasury Department, Washington, D.C. 1961–69, Practiced law in Houston, Texas, specializing in federal tax matters. 1960–61 United States Army active duty, 2nd Lieutenant.

III. Memberships.—Texas Bar Association; American Bar Association, Section of Taxation, American Law Institute; Board of Directors, Texas Children's Hospital.

IV. Awards, honors, etc., Order of the Coif; Chancellors; Case Note Editor, Texas Law Review; Beta Gamma Sigma; U.S. Treasury Department Exceptional Service Award, 1972.

STATEMENT OF JOHN E. CHAPOTON, TO BE ASSISTANT SECRETARY OF THE TREASURY FOR TAX POLICY

Mr. CHAPOTON. Well, Mr. Chairman, I have a very brief statement. First, I would like to express my sincere appreciation to Senator Bentsen for his remarks and introducing me to the committee. I appreciate that more than I can say.

I appreciate the opportunity of appearing before the committee this morning. I have always admired and enjoyed the committee and its staff and enjoyed working with the committee and its staff, both when I was with the Treasury Department some 10 years ago, and subsequent to that time when I have made appearances before this committee. I certainly look forward to working with the committee, again.

So, I have no further statement other than that. I would be happy to answer any questions you might have, Mr. Chairman.

Senator PACKWOOD. Let me ask you one question so we have it on the record. I understand that you have invested in oil properties over the years. Would you tell the committee the extent of such investments and whether or not you feel that they create any conflict with your duties at the Treasury Department.

Mr. CHAPOTON. Mr. Chairman, I have invested in private oil drilling programs over the years, over the last 10 or 15 years. I have, of course, furnished the committee, a listing of those holdings and have furnished the executive branch a listing of those holdings.

[Letters from the Treasury Department and Office of Government Ethics follow:]

THE DEPUTY SECRETARY OF THE TREASURY,
Washington, D.C., March 4, 1981.

Memorandum for: John Chapoton, Assistant Secretary for Tax Policy-Designate.
From: R. Tim McNamar.

Based upon the recommendation of the Acting General Counsel, you are hereby informed that the investments reflected on the financial disclosure report you filed on January 27, 1981 are not so substantial as to be deemed likely to affect the integrity of the services which the Government may expect to receive from you.

DEPARTMENT OF THE TREASURY,
Washington, D.C., March 3, 1981.

Memorandum for: R. Tim McNamar, Deputy Secretary.
Through: Dr. Norman B. Ture, Under Secretary for Tax and Economic Affairs-Designate.
From: John Chapoton, Assistant Secretary.
Subject: Section 208(b) Waiver for Oil and Gas Matters.

Because of my holdings in oil and gas and other industries, I have been advised to seek from you a waiver of potential conflict of interest under the provisions of 18 U.S.C. § 208(b). The Acting General Counsel informs me that he and the Office of Government Ethics both believe that such a waiver is appropriate and desirable.

The primary purpose of the waiver is to permit me to engage in any legislative or regulatory matters that come before me in my capacity as Assistant Secretary (Tax

Policy). To the extent that I perceive that any matter is peculiarly applicable to any of the interests I have, I will, of course, recuse myself.

Attached is the recommended recusal form together with a memorandum from the Acting General Counsel recommending execution. Also attached is a copy of my financial disclosure report reflecting my holdings.

Attachments.

THE GENERAL COUNSEL OF THE TREASURY,
Washington, D.C., March 2, 1981.

Memorandum to: John Chapoton, Assistant Secretary for Tax Policy—Designate.
From: David R. Brennan, acting general counsel.
Subject: 208(b) WAIVER.

Your financial disclosure report reflects u significant holding in oil and gas interests and lesser holdings of other types of investments. The type of blind trust your are establishing will not provide immunity from the application of section 208 of 18 U.S.C. and, because of the concentration of oil and gas interests, it does not appear that the diversified qualified blind trust is available to you under 5 U.S.C. App. § 202(f)(4)(B). The resulting issue is whether, in your capacity as the Assistant Secretary for Tax Policy, you can engage in legislatve and regulatory matters affecting these industries in which you have an interest.

Section 208(a) of 18 U.S.C. prohibits an employee from engaging in anyway in a "particular matter" in which he has a financial interest. The Department of Justice indicates that there is no internal gloss on the definition of "particular matter". In my judgment, the term does not cover broad legislative and regulatory matters relating to an industry. The benefit you may receive as an investor in the oil and gas or this industry is not the result of a "particular" matter or proceeding, but rather the indirect consequence of being a member of a broad class.

The issue is more one of appearance than actual conflict. Nevertheless, to avoid any question being raised, it is my recommendation that you seek a waiver under the provisions of section 208(b). I have discussed this matter informally with the Office of Government Ethics, and they concur in my recommendation. There is attached a suggested waiver and a suggested memorandum from you to the Deputy Secretary through the Under Secretary requesting the waiver.

Under section 503 of Executive Order 11222 dated May 8, 1965, the authority to provide the waiver to subcabinet officials is delegated to the Secretary. The authority of the Secretary in turn is delegated to the Deputy Secretary and Under Secretaries through Treasury Department Order 101-5. The prior practice in the Department has been to obtain such waivers from the Deputy Secretary and I suggest that procedure.

Attachments.

OFFICE OF GOVERNMENT ETHICS,
OFFICE OF PERSONNEL MANAGEMENT,
Washington, D.C., March 5, 1981.

Hon. ROBERT DOLE,
Chairman, Committee on Finance,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: In accordance with the Ethics in Government Act of 1978, I enclose a copy of the financial disclosure report filed by John E. Chapoton. President Reagan has nominated Mr. Chapoton for the position of Assistant Secretary (Tax Policy) of the Department of the Treasury.

We have reviewed the report and have obtained advice from the Department of the Treasury concerning any possible conflict in light of the agency's functions and the nominee's proposed duties. As noted on the financial disclosure report, Mr. Chapoton has received a waiver under 18 U.S.C. 208 from the Deputy Secretary of the Treasury with respect to his oil and gas and other interests as shown on the report. Based thereon, we believe that Mr. Chapoton is in compliance with applicable laws and regulations governing conflicts of interest.

Sincerely,

J. JACKSON WALTER, *Director.*

I raised the question with our ethics officer in the Treasury Department. It evidently was not clear whether there was a requirement of a waiver. But, I requested and received a waiver from our ethics officer, with the understanding that if a direct conflict or a conflict, apparent or real appeared, I would excuse myself from any matter that might give such appearance.

My holdings are certainly not extensive. I have put money in the oil business rather than in the stock market and these investments have done reasonably well, not very extensively well.

Senator PACKWOOD. Let me ask you one question that I will also ask Mr. Egger. It has to do with the taxation of fringe benefits. Every year we approach the deadline of the extension for not taxing certain fringe benefits. Often the Treasury Department, sometimes tax reformers come forth and say, "They should be taxed." I am talking about airline stewardesses riding free on half-empty planes and department store discounts to employees.

There is a whole range of fringe benefits that are tax exempt at the moment, by law. By history, they have not been taxed. Every time we approach this subject we get a great quantity of mail from the affected groups, who either assume that the law has exempted them from taxation for years or it should certainly exempt them from taxation on these benefits.

What is your view about the taxation of those kinds of fringe benefits?

Mr. CHAPOTON. Mr. Chairman, I can remember the fringe benefit question being discussed over the last 10 or 15 years before it really became an issue. Everyone said that if it ever arises, if the door is ever opened it will be very difficult to shut it again. That is exactly what has happened.

My view is we have to have a rule of reason. You simply cannot tax every item that might be considered a fringe benefit, even though if examined in the purest sense, it might be a matter of compensation.

Senator PACKWOOD. Well, in an absolutely pure sense, I suppose a parking place at a General Motors plant for 20,000 employees that might be valued at $2 a month or $3 a month, is a fringe benefit.

Mr. CHAPOTON. That is correct, or one employee having a nicer desk or bigger office than another employee is technically a fringe benefit.

Senator PACKWOOD. I might ask you hold us to the 5-minute rule on questions.

What should be the rule of reason? Should we try to write something statutorily?

Mr. CHAPOTON. My hope is that we can. We have this problem under active consideration now. I have pulled out all versions of fringe benefit rules and there are some five different versions now. I am trying to get them side-by-side to see what each version has done. You know, that includes the two sets of proposed regulations, the discussion draft regulations.

My hope is that administratively we can come up with a rule of reason that does not reach every last item that you could possibly tax under the law. Then, we would see if it is possible to reach that rule under the present law, and if it is not, we would make a legislative proposal to make what I think would be a rule of reason consistent with the law.

75-714 O - 81 - 2

Now honestly, I am hopeful that you can do that without further legislative action, but I am not at all positive at this point that it can be done.

Senator PACKWOOD. I would hope we could. We do take some legislative action where it is a deliberate social policy. We have exempted health and legal insurance fringe benefits.

Mr. CHAPOTON. Right.

Senator PACKWOOD. We have also exempted educational benefits paid for by the employers.

Senator PACKWOOD. I think that was probably a good decision, because prior to that we were stuck with trying to distinguish whether the benefit was for the employee to advance or for the benefit of the employee to preserve the present job. One was taxable and one wasn't, and there was a distinction almost without a difference. So we simply said, by law, any educational benefit is not taxable.

If you could arrive early at some rational policy, I would appreciate it. Otherwise we are going to once again find ourselves at the end of the extension and there will be a few stories circulated that these benefits are going to be taxed, and we will be right back in the soup.

Mr. CHAPOTON. Yes, sir. We are near the end of the extension now.

Senator PACKWOOD. That's correct.

Mr. CHAPOTON. That is why we are actively working on it. Certainly we feel that would be ideal if we did not have to have another extension.

Senator PACKWOOD. Senator Bentsen.

Senator Bentsen. Thank you Mr. Chairman.

Mr. Chapoton, in light of some very serious criticism that has been levied at some of the regulations that were issued quite late in the last administration concerning foreign tax credits, and opposition by the American Bar Association and many others, do you not think that it might be wise to review those regulations before they become final?

Mr. CHAPOTON. Senator, we are presently reviewing those regulations very thoroughly. As a matter of fact, just this morning we discussed one aspect of those regulations. We are not going to let them become final. The hearing on the proposed regulations will not be scheduled until we decide if indeed the regulations in their proposed form are on the right track.

Frankly, from what I have seen of them and the discussions I have had both with our staff and with outside groups, I have concerns about whether they are on the right track, both from a policy standpoint and from just a drafting-technical standpoint.

So, we are going to look at them again. We are not going to be at all reluctant to withdraw them and repropose regulations if we think that is the best course.

Senator BENTSEN. There is another regulation that has been proposed concerning the deductibility of interest paid on time deposits that are secured by municipal bonds. I can understand that argument that has been in effect for some time on individuals, but that has not been the case in financial institutions, particularly where you have a legal requirement that you pledge those kinds of securities against CD's, and that is the law in Texas.

Mr. CHAPOTON. Right.

Senator BENTSEN. So, you have the financial institution that is caught in that kind of a situation. And then to come out with a regulation that would say you would not be able to deduct the interest paid for that financial institution, and the chaotic condition of the long-term money market in this country or the municipal bond market really adds to the problem.

Treasury has deferred that, as I recall, until about June.

Mr. CHAPOTON. June; yes, sir.

Senator BENTSEN. I would urge you very strongly to take a look at that. Frankly, I think it is a serious mistake to put forth that kind of a regulation.

Mr. CHAPOTON. The irony Senator, is that the same problem arose in 1970, when I was with the Treasury Department. At that time, a revenue procedure was published which after a long consultation with the banks and other institutions we thought solved the problem. Now it has been germinating for some 10 years, and as a result of the direct pledging arrangement the problem arose again and the result was this revenue procedure. It is the concern of the banks, but it really affects the issuers. They will be the ultimate parties who have to pay the burden if this revenue procedure stays in place.

Senator BENTSEN. The banks will finally pass it on if it stays in effect.

Mr. CHAPOTON. Right.

Senator BENTSEN. But, you will have the small public entity issuing municipal bonds.

Mr. CHAPOTON. Correct.

Senator BENTSEN. They are the ones that will finally pay the price for this.

Mr. CHAPOTON. Yes, sir. We do have that under active study, not only the technical details of the revenue procedure, but the ramifications of it. We have asked for a much broader look at the ramifications of the revenue procedure and possible modifications or withdrawal of the revenue procedure as well.

Senator BENTSEN. That is all I have at this time.

Senator Packwood. Senator Chafee.

Senator CHAFEE. Thank you Mr. Chairman.

Do you have any thoughts on the present policy we have to withhold taxes on interest on foreigners who have U.S. funds? Do you have any thoughts on that? Do you think that if we gave up that withholding we would encourage more foreigners to come into our bond market and thus, make more money available and help reduce our interest rates?

Mr. CHAPOTON. Senator, we definitely, by a change in the law and not withholding on interest paid abroad, would encourage funds to flow into the U.S. bond market, without question. Of course, now, since that is not the law, as is often the case, taxpayers have found a way to reach the same economic result through countries with whom we have treaties, permitting limited withholding.

Senator CHAFEE. Yes, but that is a complicated way to go about it.

Mr. CHAPOTON. It is a very complicated way to go about it.

Senator CHAFEE. Don't you think that we would make a more direct appeal for foreign investment in our bond market if that law were changed?

Mr. CHAPOTON. Undoubtedly that is the case, and the prior administration supported such legislation. We are looking at that now. One pause I would have is whether, when you have bearer bonds abroad, our trading partners would be concerned about the possibility of interest being paid to their citizens and their not knowing anything about it. There are ways to deal with that problem—you can give the exemption and not have it for bearer bonds—or you cannot worry about it at all. We are looking at the problem.

Certainly, it seems to me that a good policy is to allow interest to be paid without withholding, because it seems to be in line with our need and our wishes for investment in our bond market here from abroad.

Senator CHAFEE. Well, I am interested in that. I hope you would follow along with it. When you said the prior administration supported it, they supported it in a very quiet manner, unbeknownst to anybody. And, particularly when they came in and asked for withholding on all Americans' interest on their savings deposits.

Mr. CHAPOTON. Right.

Senator CHAFEE. What about taxation of Americans abroad? Give me some of your thoughts on that.

Mr. CHAPOTON. Senator, we clearly have to change the rules on taxation of Americans abroad. We have to give a greater exemption of some significant magnitude for the income of Americans earned working abroad.

Senator CHAFEE. That would mean exempting them from earned income up to a certain amount or some percentage?

Mr. CHAPOTON. Up to some limit, plus something for——

Senator CHAFEE. Housing.

Mr. CHAPOTON [continuing]. For housing—for the extravagant cost being paid by their employers for housing abroad, particularly in hardship areas.

Senator CHAFEE. That is the official position of the Treasury now?

Mr. CHAPOTON. Senator, no, that is my position. I feel very certain that it will be the official position of the Treasury, but we haven't actually developed a position on this. As a matter of fact, as you probably know, that is in our second bill package. So, we are working on that right now.

Senator CHAFEE. I see. Thank you. Thank you, Mr. Chairman.

Senator PACKWOOD. Senator Bradley.

Senator BRADLEY. Mr. Chapoton, I would like to get your thought on the use of tax policy generally to encourage investment in urban centers.

During the campaign, President Reagan indicated his support for this and for so-called green lining. I was curious, what are your views as to how we could use the tax system to encourage investment in urban centers.

Mr. CHAPOTON. Senator, we are looking at that right now. I have to honestly state that I have not personally reached conclusions on the impact of such encouragement. It certainly seems desirable. I certainly know that the President did definitely favor it during the campaign. It seems to have a desirable effect, but I have to admit that I have not developed my own position on it yet.

So, I would just like to defer that until I personally have studied it further.

Senator BRADLEY. Are you aware of a letter that I sent to the Secretary concerning emergency oil taxes and tariffs?

Mr. CHAPOTON. No, Senator, I am not.

Senator BRADLEY. Will you be responsible in the Department if emergency taxes and tariffs were to be developed as a mechanism to replace the rationing and allocation regulations that will expire on September 30?

Mr. CHAPOTON. Yes, sir.

Senator BRADLEY. Do you have any views on the preferability of the use of tax policy to cushion the impact that an oil supply interruption would have on price?

Mr. CHAPOTON. Senator, I do not at this time have a policy. I guess I am somewhat reluctant to see tax policy used on a temporary, if it is a temporary, basis, but I would have to withhold my thoughts on that until we have studied it further.

Senator BRADLEY. Will you be responsible for getting the answer to the letter that I sent?

Mr. CHAPOTON. Yes, sir, I certainly shall. I will look for that letter. I am sure that it is in our office and an answer is being prepared. I do not understand why I have not seen it, but I have not.

Senator BRADLEY. If you wanted to capture the rents that would flow to OPEC if we lost a sizable quantity of oil, what do you think would be the best way of capturing those rents?

Mr. CHAPOTON. The rents?

Senator BRADLEY. The rents. The additional revenues that would flow from oil importing countries to OPEC if we did lose oil and the price went up.

Mr. CHAPOTON. Well, the tax system would be a way of doing it.

Senator BRADLEY. Is there any other way?

Mr. CHAPOTON. The tariff system.

Senator BRADLEY. Is there any other way that you can think of?

Mr. CHAPOTON. No, sir.

Senator BRADLEY. What are your views on the desirability of using tax subsidies to increase research and development?

Mr. CHAPOTON. I think the use of a tax subsidy or tax credits for research and development is probably a good idea. We are looking at that right now for our second tax bill, and, as you know, we included research and development equipment in the 3-year class of the present proposal.

This afternoon I am meeting with some people that have some question about whether that has done enough and the exact effect that has on——

Senator BRADLEY. As you know, Senator Danforth and I are strong proponents of this policy. We would like to continue this conversation.

Mr. CHAPOTON. Yes.

Senator BRADLEY. One specific question, this is a little more specific and therefore, complicated. Section 103 of the tax code encourages investment through the use of small issue industrial development bonds.

Also, section 103(b)(6)(1), encourages investment through the use of large issue industrial development bonds if there is an urban development action grant associated with the project for which the bonds are issued.

It is my understanding that both the Treasury Department and the Department of Housing and Urban Development have been trying to agree on regulations which would clarify section 103(b)(6)(1), so that investors could take advantage of this section of the code.

Apparently HUD has favored regulations which would spur the use of industrial development bonds, but the Treasury Department has been concerned about the revenue effects.

What do you believe is the proper policy regarding the issue of large industrial development bonds? And when is the Treasury going to clarify section 103(b)(6)(1)?

Mr. CHAPOTON. We are working on the regulations. I cannot give you a date when those regulations will be issued.

We also are working on two sets of regulations in the tax-exempt bond area.

My feeling, in general, on the issue of industrial development bonds is, while they have a desirable effect on the particular area being assisted and upon small business in particular areas, as a tax policy matter, you do have to examine closely the normal small issue exemption industrial development bonds, because of the impact not only on holders of bonds, but also on other traditional bond issues for schools, bridges, and other State and local capital needs.

As we found last year in the mortgage revenue bond area the well is not bottomless. So, I think each case does need to be examined where you have an enlargement of tax-exempt issues. But, by and large, they are beneficial to the areas.

Senator BRADLEY. When will the clarification come?

Senator PACKWOOD. Your time is up, Bill.

Mr. CHAPOTON. Senator, I cannot give you a date. I will be happy to get back to you on it.

Senator BRADLEY. Thank you.

Senator PACKWOOD. Senator Byrd.

Senator BYRD. I have had the opportunity to talk with each of the nominees. I have no further questions. I support the nomination of each one of them.

Senator PACKWOOD. Thank you.

Senator Grassley.

Senator GRASSLEY. Thank you Mr. Chairman.

I am going to be or am the subcommittee chairman of the Subcommittee on Oversight of the Internal Revenue Service. I am particularly concerned about the Service's liberal interpretation of their legislative authority. In a couple of areas in the previous administration we have had, for instance, interpretation of the special use election for estate taxes that originally tightened the law so much that very few of the intended beneficiaries were eligible for such an election. That has been modified to some extent.

More recently, we have had a concern about imputed interest that has been put off until July 9. I guess, in a very general way, I would like to know your reaction to the IRS's apparent violation of the will of Congress to the point that many appropriation bills restrict funds for the IRS for particular purposes. It has led a majority of the Congress to put riders on those appropriation bills to see that IRS regulations do not contravene or exceed legislative intent.

Will you have a review of such regulations, particularly within the concept of following legislative intent? I would also like to ask if you have any reservations about complying with congressional intent on tax legislation formulated by this committee and the Committee on Ways and Means?

Mr. CHAPOTON. Senator, let me state generally first, I too am very concerned about the regulations and rulings that have generated a response here in the Congress requiring a hold on action either through the appropriation process or through a specific legislative moratorium.

Commissioner-designate Roscoe Egger and I have discussed this problem at some length. I think we are both very concerned about it. We have put on our agenda each of these items and are discussing them now with the hope that we can resolve them in a reasonable way in light of congressional intent, and that we will be able to put an end to the need for this altogether.

Now that may be an unduly optimistic approach, but we are going to certainly make an effort to do it. Frankly, I think we can.

Senator GRASSLEY. I think it can be done if the Secretary and the Assistant Secretary, like yourself, look upon the IRS as an integral part of the Treasury Department and include the Commissioner of Internal Revenue in the meetings at the sub-Cabinet level. There should be a clear signal from the White House, through the Treasury Department to the IRS, that the IRS is part of the Federal Government and to respond accordingly to the mandate of the last election.

I think that if you work diligently at this it can be accomplished. I think that that is what participatory democracy is all about. People that are in the bowels of the bureaucracy, are part of the Government: They need to feel a part of the Government. They aren't going to feel that way unless you bring that to their attention that they are a part of the Federal Government.

I do not mean to be facetious in saying this. I am very serious in what I say.

Mr. CHAPOTON. I agree with you completely. I think Mr. Egger and I have a very close working relationship. I think, I am confident, frankly, that we can resolve, can prevent this type of thing from happening again.

One of the reasons I was most interested in taking this job was to stop that situation which to me is intolerable. It is not only, I am sure, intolerable to you here, but it is intolerable to the members of the tax bar and the CPA's who have to deal with these laws. Once you have a moratorium or a hold on an interpretative set of rules, then nobody knows where you are. It is a very undesirable situation.

Senator GRASSLEY. During President Reagan's first week in office, he appointed Vice President Bush to be chairman of the task force on regulatory reform. This task force will review present and proposed regulations.

Would you consider reviewing regulations now on the books at IRS?

Mr. CHAPOTON. We are reviewing regulations now on the books to the extent we think there is a problem. Of course, it is impossible to review all the outstanding regulations, but we are certainly reviewing proposed regulations that we think there may be a problem with, and we are certainly reviewing closely all regulations that are to be proposed or to go final in the near future.

The OMB oversight of such regulations is a function that we think we will probably exercise that in the Treasury Department though, hopefully.

Senator GRASSLEY. Thank you.

Senator PACKWOOD. Senator Durenberger.

Senator DURENBERGER. Thank you very much, Mr. Chairman.

Two followup questions or comments, I guess, to what Senator Grassley asked you. I would like to fortify what he said about 482 and 483, and also to suggest that the special evaluation rules in 203(2)(a), that relate to the estate tax and relate to material participation in some of these issues are going to be raised by several of us in separate bills.

I think that you probably know the fact that this committee now has a Subcommittee on Energy and Agricultural Taxation. Specifically, its chairman is chairing an Intelligence Budget Subcommittee meeting this morning or he would be here to try to fortify for you the concern that a lot of us have about agricultural taxation.

So, my purpose in making that statement is to fortify what you have heard from others on this subject.

The second thing that occurs to me from the last set of questions is the issue of sunsetting the whole process. With another hat on, I am on Governmental Affairs, promoting sunset and so forth. The issue always comes up relative to sunsetting tax regulations.

Generally, I think most of us have opposed it. Last year, there was a discussion here between the chairman and the ranking member and others about taking the Internal Revenue Code and dividing it in 10 parts and taking a part of it every 10 years.

Do you have some general feelings on the subject of sunsetting the Internal Revenue Code or legislation?

Mr. CHAPOTON. My general feeling is probably it is not desirable, for two reasons. One, it puts pressure on the committees and on us, every time the sunset period comes up and we have to go through an awful lot of work to see whether to extend it. I think usually, the result is you do extend what is on there, so maybe it is a lot of motion you don't need to go through.

Another part of sunsetting that worries me is the uncertainty it causes for business. I think the best thing you can have for a business climate is certainty, and providing rules that business knows will change in the future unless Congress takes action, I think causes uncertainty and is undesirable.

Senator DURENBERGER. Now let me ask you a question about something that is really bothering me and that is the subject of tax reform versus tax cuts.

Shortly after I came here, I introduced a comprehensive indexing bill, indexing not only the individual rates and the personal exemption, but capital gain, corporate rates, depreciation, the whole works.

We have floated that over the last 2 years in the form of amendments, usually getting defeated. I understand when the President was a candidate, he was all for indexing and so forth and he made some reference to it.

But, again, with another hat on, in the Internal or Intergovernmental Relations Subcommittee chair, we have just been through a week of hearings on the impact of this administration's policies on State and local government.

I represent a State that—one of the six States that have gone to 85-percent indexing of its rate. The impact of indexed State rates and unindexed Federal rates in Minnesota, over the next biennium is something in excess of a $300 million tax loss to the State of Minnesota.

Now, if we were to pass some of the tax cut provisions here, we would pick up about one-half of that because we have deductibility. But, I would be very concerned to know how committed you and your boss, in effect are, to the subject of eliminating bracket creep, and how soon you think we can move on this kind of legislation.

Mr. CHAPOTON. Well, as you know, that was an item that we had listed to present proposals on in the second bill. It is an item that has been mentioned by the President several times. It was mentioned in his speech on February 18.

So, we are committed to coming forward with a proposal on indexing. As you well know, because of your work in indexing, it is one thing to index the rates and to prevent bracket creep. When you get into indexing depreciation and what you do with debt, it can become a very complicated subject.

But, we feel that we bought some time on indexing because of the proposal, the 10-10-10 tax cut proposal, which is in itself a form of indexing for those 3 years.

Senator DURENBERGER. I will just finish by fortifying the importance of what is going on in the whole Federal system and sorting out the roles of the Federal, State, and the local governments. I think this issue is extremely important to the States and the State legislatures and to local governments, to the general revenue sharing program and a variety of those things.

I think the sooner we get some clear definition and some clear philosophy out of this administration the better.

Mr. CHAPOTON. OK.

Senator DURENBERGER. Thank you very much.

Mr. CHAPOTON. Thank you.

Senator PACKWOOD. Senator Boren.

Senator BOREN. Thank you Mr. Chairman.

I really don't want to take the time of the committee to ask any questions at this point. I just want to say that I am very, very pleased to see someone of Mr. Chapoton's technical ability and his background appointed to this post. I congratulate the President on the appointment. I won't take further time of the committee to ask any questions. I am already well-satisfied with the nominee's qualifications.

Thank you Mr. Chairman.

Senator PACKWOOD. Thank you.

Mr. CHAPOTON. Thank you.

Senator PACKWOOD. Senator Baucus.

Senator BAUCUS. Thank you Mr. Chairman.

You and I spoke yesterday about tax expenditures. The more I look into it, the more I wonder perhaps if we have an obligation in the Congress, and the administration as well, to use the phrase "look into it," to see what makes sense here.

I understand that in 1968, there were 40 items only, in that tax expenditure budget. Last year, between 1980 and 1981, tax expenditures rose 20 percent in that 1 year.

The fact of the matter, it is my understanding that the percentage of increase in tax expenditures is greater than both the total income of tax receipts and total outlays for general funds, generally, in the last several years.

For example, the percentage increase between fiscal 1974 and 1980, that is, during that 6-year period, the tax expenditure increase was 162 percent. Total income tax receipts in that same period rose by almost a little more than one-half that, 96 percent. Federal outlays rose in that same period, 111 percent.

I am just curious, the degree to which you think we, the Congress, in these times of trying to cut Federal spending, times of trying to balance the budget, and given the fact that tax expenditures have risen so dramatically in the last several years, and have some obligation to try to look at ways to close some of the loopholes, to reexamine some of them to see whether as a practical matter they are accomplishing the purpose that they are intended to accomplish.

One could, for example, look at an item that is near and dear to the heart of the chairman of this committee, acting chairman of this committee, and that is conservation tax credit.

I think, as a practical matter, most people buy insulation for their homes and try to practice conservation measures because it makes sense to cut down their utility bills. And, they would anyway, regardless of whether there is any tax credit.

In fact, many studies show that tax credits are not an incentive to people to actually go out and make the expenditures because they would anyway.

Now, I am not saying that is exactly the case. One has to look into it. One could make the same argument in a lot of other so-called tax expenditures, credit deductions, exemptions, that is, would those people have made those anyway, and therefore, are we just spending a lot of money that we needn't necessarily spend in our efforts to try to balance the budget.

In fact, in the last several days, lots of big name economists, including Mr. Lafer have suggested that we look at tax expenditures. Even though, to some degree that it strikes at the so-called supply side theory these days that is in vogue, I think that perhaps we could look at tax expenditures, see which ones make sense, which ones don't, and reduce those that don't make sense and at the same time enact a substantial tax cut, ala supply-side economics.

What I am really driving at is getting the most bang for our buck here, and to devise a tax system which is as efficient as possible and where the results are closest as possible to what we are intending to accomplish here.

I am wondering if you could just for a few minutes tell us what you think about tax expenditures as they relate to efforts to cut down the deficit, balance the budget, cut out unnecessary spending, and at the same time, along with our so-called tax cut here, whether it is Kemp-Roth or whatever it is, figure out ways to stimulate the economy.

Mr. CHAPOTON. Senator, the term "tax expenditures," has become a very volatile word. As you well know, when you look down the list that is required to be published in the budget, a great number of them would not fall within most people's concept of a loophole. The big items are the nontaxation of social security and the treatment of the private pension system—the tax benefits given to pensioners. The employer deducts the contribution to a pension plan for an employee, the income is not taxed while it is held in the pension trust, and then it is usually taxed at a lower rate after retirement, when it comes out.

There are any number of these items that are not normally thought of as loopholes. There are many benefits for business in the tax expenditure list. So the real result, if you examine and decide to change one of these deductions or credits, is that you are raising the tax of that business or that segment of the economy or those individuals. If you decide to do that, I don't think there is anything wrong with it or that prevents it. I just think you have to recognize that you are increasing the tax on that group.

Now, there is nothing wrong with examining whether certain credits, such as the energy credit or any other credit as designed, has carried out its particular purpose.

Senator BAUCUS. If I may have 1 more minute, Mr. Chairman.

Senator PACKWOOD. Max, your first question was 5 minutes long. [Laughter.]

Senator BAUCUS. This next one will be much shorter.

Senator PACKWOOD. Very well.

Senator BAUCUS. Thank you.

I guess my concern is this. I think if we are going to reduce inflation and interest rates in this country, the American people have to perceive in fact our efforts to cut spending budgets are in fact evenhanded and fair. Otherwise, it just isn't going to work.

Mr. CHAPOTON. I agree.

Senator BAUCUS. If you take President Carter's last budget, $730 billion, roughly, and then, exclude defense expenditures, exclude the safety net, and also exclude tax expenditures which amount to $260 billion in fiscal 1982, according to my understanding. That leaves out of roughly a $1 trillion budget, $235 billion only, within which the President proposes to make cuts.

I think that the middle and upper-middle and upper income taxpayers are not feeling the bite in the present cuts that have been proposed thus far nearly to the same degree as middle-income people, and lower income people are feeling the bite.

So, I am suggesting that you look also at tax expenditures so that as a psychological matter, Americans will, all Americans will feel a little of the pinch here so that we share equally and the perception therefore, across the country is that this is in fact an even handed program. That is one of my main concerns here, too.

Mr. CHAPOTON. Well, Senator, of course, No. 1, it is very dangerous to add the totals of the tax expenditures. That is a nonadditive list, because some offset the others. If you change a deduction then it has effect across the entire system, it reduces the income that would be earned from eliminating another deduction.

In addition, I think you have to look at them individually. You cannot look at them as a group and slash them across the board, because they are raising the tax in the area you affect, if you change a particular tax expenditure.

Senator BAUCUS. Conversely, when they are reduced that means there is more room left to lower the taxes of more Americans.

Mr. CHAPOTON. That is correct.

Senator BAUCUS. If you want to raise the tax for a particular segment——

Mr. CHAPOTON. It works both ways.

Senator BAUCUS. It works both ways.

Mr. CHAPOTON. Yes, sir, that is correct.

Senator BAUCUS. Thank you.

Senator PACKWOOD. Before Senator Long asks questions, would you mind if Senator Bentsen says a word about the next nominees?

Senator BENTSEN. Thank you, Mr. Chairman. I have to attend a meeting of the Intelligence Committee. I am sorry that I have to leave. I regret not being able to listen to Mr. Egger and Dr. Roberts. I welcome these gentlemen to the committee.

Mr. CHAPOTON. Thank you very much.

Senator PACKWOOD. Senator Long.

Senator LONG. I was pleased with your answers with regard to tax expenditures. It seems to me that that is such a deceitful expression, "reduce tax expenditures." The average guy thinks you are talking about cutting spending. You are talking about raising his taxes. It seems to me that we ought to dump that term and start talking about and turn to whether you are talking about raising somebody's taxes and if so, whose?

Now I am concerned about the foreign tax credit. Are you aware of the concern that is being expressed among the people who do business overseas, as well as the tax community who have some claim to expertise in that area, about the regulations that have been promulgated with regard to the tax credit of the previous administration?

Mr. CHAPOTON. Senator, I am very aware of that. Almost daily I am aware of it now. As I said earlier, an area that we have under quite active review is what to do with those regulations.

Senator LONG. I don't think that what they are proposing was the intent of Congress. I don't think it could have passed the Senate or the House of Representatives. I would hope that the administration would be careful, take a good look at these things where someone is attempting to make the law something completely contrary to what the Congress had in mind when it enacted it.

My thought is that these regulations are supposed to implement what Congress intended, not to do the opposite. I know what your job is. I know what it is and I know what it is not. I know that you can come up here and say what you think, and then, you can have your view. The Secretary might change your mind for you, even though you remain of the same opinion still. And I know that even after you get through recommending something, you might get up to the White House and somebody up there might change his mind for him by the time they get through making their judgment and that sort of a thing.

But I would hope that you would be, that insofar as you have some influence up there that you wouldn't try to change the law that Congress intended, that you try to write your regulations to implement, not to defeat what the Congress intended on doing up here.

I would hope very much that you intend to carry out that type approach.

Mr. CHAPOTON. Senator, earlier we had a discussion of this. I think definitely that is our view. I believe, frankly, that we can do it in a reasonable manner that will quell some of the concerns that have arisen over the last few years.

Senator LONG. May I say, it gets very tiresome up here trying to pass a second law.

Mr. CHAPOTON. I agree.

Senator LONG. It gets tiresome passing a second law to try to achieve what you thought you did with the first law. I thought that is why we gave power to make regulations to the Treasury, so that the Secretary could make some regulations that would help us to do what we intended to do in the first instance. I hope that under your advice and counsel, the Secretary will try to do just that.

Mr. CHAPOTON. I agree, Senator. Frankly, I have been personally involved in a number of instances that you just described. In these cases a second, fairly minor legislative action was required because the regulations didn't, in my view, carry out the intent of the Congress. And obviously then, because of the legislation, in Congress' view, the regulation didn't carry out the intent of the Congress in enacting the first provision.

Senator LONG. Thank you very much, sir.

Mr. CHAPOTON. Thank you.

Senator PACKWOOD. Senator Boren, do you have any questions?

Senator BOREN. No, Mr. Chairman.

Senator PACKWOOD. Senator Baucus, any more questions?

Senator BAUCUS. No, Mr. Chairman.

Senator PACKWOOD. Mr. Chapoton.

Mr. CHAPOTON. Thank you very much. I appreciated appearing before the committee today.

Senator PACKWOOD. Next, we will hear Roscoe L. Egger, Jr., nominated to be Commissioner of Internal Revenue.

Mr. Egger, welcome. Next to the Office of Management and Budget, I think you are undertaking the most unpopular job in Government. I do not know how you can win in this job. This committee will be one of the first to criticize, followed by the Ways and Means Committee and everybody else in the country. I assume

that you come out of it after 3 or 4 years better off than you went into it. But, while you hold it, it is a difficult job.

[The biographical data of Mr. Roscoe S. Egger and a letter from the Office of Government Ethics follow:]

BIOGRAPHICAL SKETCH OF ROSCOE L. EGGER, JR.

Position.—Partner in Charge, Office of Government Services, Price Waterhouse & Co., Washington, D.C.

Education.—Indiana University, B.S., 1942; George Washington Univerity Law School, J.D., 1950.

Range of experience.—Experience includes more than 30 years in professional practice including government (General Accounting Office) 2 years; private law practice 6 years and over 25 years in public accounting.

Professional and business history.—Price Waterhouse & Co., Partner in Charge, Office of Government Services, 1973 to date; Partner in Charge of tax department, Washington, D.C., 1956-1973.

In the early part of his career, he served as the tax specialist for a small CPA firm. Throughout his six years in the practice of law his professional work was essentially as a tax specialist.

Since joining Price Waterhouse & Co. in 1956 he has been engaged directly in the firm's tax practice as a specialist. He assumed responsibility for the firm's tax practice in Washington, D.C. from the beginning and continued in that role until 1973 when he assumed responsibility for the newly organized Office of Government Services. This position includes tax responsibility since the Office includes a technical tax department as well as the National Director of Tax Policy of the firm. The period from 1956 to 1973 included handling of a substantial volume of involved technical and procedural tax issues for a broad cross section of the clients of Price Waterhouse & Co. These professional engagements enabled him to acquire an intimate knowledge of the structure and procedural operation of the Internal Revenue Service as well as dealing with the substantive issues.

He recently served as one of seven private sector members appointed to the Commission on Administrative Review of the U.S. House of Representatives. It was the role of this Commission to evaluate the administrative operations of the House of Representatives. After months of study and analysis, the Commission submitted to the House of Representatives 42 proposed changes in rules or procedures dealing with such issues as accounting and management functions, committee reform, congressional travel, member allowances and perquisites.

Professional and business affiliations.—American Institute of CPA's; Federal Taxation Division; Federal Government Executive Committee, former Chairman, Chamber of Commerce of the United States; Board of Directors, former member; Committee on Federal Taxation; Government and Regulatory Affairs Committee, member and former Chairman American Bar Association; D.C. Bar Association; District of Columbia Institute of CPA's; Tax Council; and Tax Institute of America.

Community services and social organizations.—National Cathedral School Governing Board, former Chairman; National Cathedral Foundation; Wolf Trap Foundation for the Performing Arts, Board of Directors; and Wolf Trap Associates, Board of Directors, Chairman.

OFFICE OF GOVERNMENT ETHICS,
OFFICE OF PERSONNEL MANAGEMENT,
Washington, D.C., February 10, 1981.

Hon. ROBERT DOLE,
Chairman, Committee on Finance,
U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: In accordance with the Ethics in Government Act of 1978, I enclose a copy of the financial disclosure report filed by Roscoe L. Egger, Jr., whose nomination for the position of Commissioner of Internal Revenue in the Department of Treasury, has been sent to you by President Reagan.

We have reviewed the report and have also obtained advice from the agency concerning any possible conflict in the light of the agency's functions and the nominee's proposed duties. Based thereon, we believe that Mr. Egger is in compliance with applicable laws and regulations governing conflict of interest.

Sincerely,

J. JACKSON WALTER, *Director.*

STATEMENT OF HON. ROSCOE L. EGGER, JR., TO BE COMMISSIONER OF INTERNAL REVENUE

Senator PACKWOOD. Have you discussed the possible conflicts of interest with the committee's chief counsel?

Mr. EGGER. Yes, sir, I have.

Senator PACKWOOD. Have any possible conflicts of interest come to our attention either as a result of that meeting or otherwise?

Mr. EGGER. No; as far as I am aware of.

Senator PACKWOOD. Let me ask you the same question I asked Mr. Chapoton about fringe benefits, because it is going to be your agency that is going to attempt to tax all these benefits that are not currently being taxed.

What are your recommendations as to what we should do and I hope it is not just a continuation of this extension just to have them untaxed while we study the problem.

Mr. EGGER. Let me say this. Buck Chapoton and I have had many, many discussions concerning not only fringe benefits, but probably about 15 other areas in which we have undertaken to review what is already out in proposed form or out as a revenue procedure.

We have agreed on a priority list, fringe benefits being very high on that list. We, together with our staffs intend to review in depth all of those various areas and to attempt to solve them administratively whenever possible.

And, to the extent that we cannot solve them administratively or believe we cannot, we want to come back to you and to the House Ways and Means Committee and discuss it with you.

Senator PACKWOOD. If you have any preliminary thoughts, let me know what they are because at the moment they are either taxable or they are exempt. If they are taxable, in theory, you are bound by law to try to collect the money.

Mr. EGGER. That's right.

Senator PACKWOOD. In practice it is simply not practical in many of these.

Mr. EGGER. Clearly we have to come up with a rule of reason on fringe benefits so that we don't, No. 1, create an administrative monster for ourselves as well as for the taxpayers, and second, where there has been longstanding practice outstanding, we have to give consideration to the impact of any possible change in that long-standing practice and to make certain that any changes done in such fashion as to make it pallitable to the tax paying public. That is the general approach that we are going to take.

Senator PACKWOOD. I think of one like the meals provided by the employer where they are not taxable if it is for the employer's benefit. That might be fine at a logging camp, 50 miles away from any restaurant, where there is no practical way to serve lunch to your employees.

It seems to me, it is hardly to the employer's benefit to be exempt when it is a bank cafeteria and there are a dozen restaurants within 500 feet of the bank. And yet, at the moment, we do not tax those. I am not sure we should, but that is the kind of a situation I am talking about where the bank employees expect that fringe benefit to be untaxed.

Mr. EGGER. Yes, sir. As I said, that is part of the reason why this whole fringe benefit area has been up and down for the last 10 years without reaching conclusion.

What we are going to do is to take each and every one of those areas and look at it both from the standpoint of the obligation under the statute, and from the standpoint of being practical and in the real world to see what makes good sense as well.

Senator PACKWOOD. Thank you.

Senator Grassley.

Senator GRASSLEY. Thank you Mr. Chairman.

In light of the question that was raised while I was out, I think by Mr. Baucus, about tax loopholes, I was wondering, do you have any thoughts on the flat rate proposal, at certain percentage of gross incomes with no exemptions or deductions, as an alternate tax system?

Mr. EGGER. Well, I am not at all sure that the gross income tax is going to be all that much easier to administer as some of the proponents believe.

I think several States have tried it, the State of Indiana, among others, to my recollection. I am not satisfied that it has been all that much easier to administer.

The difficulty with a gross income tax, in my judgment, would be that it is so hard to draw the fine lines between the classes of taxpayers that we do now under the net income tax system.

Senator PACKWOOD. Excuse me. I didn't hear. Draw the line between what?

Mr. EGGER. Between classes of taxpayers, groups of taxpayers, to achieve gradations in treatment, in the case of a gross income tax system.

Senator PACKWOOD. Excuse me, Chuck. I didn't understand his answer.

Senator GRASSLEY. Go ahead. I yield to you.

Senator PACKWOOD. Well, I assume your question means a flat gross income tax.

Senator GRASSLEY. Yes.

Senator PACKWOOD. Either a 10-percent flat or it could even be, progressive. But you mean no deductions.

Senator GRASSLEY. Yes.

Senator PACKWOOD. Then, I didn't understand your answer in response to his question.

Mr. EGGER. I was saying that the gross income tax, in my judgment, may very well be more difficult to administer in many ways, than the net income system that we are used to now. I am troubled by the fact that the gross income tax might work to the genuine disadvantage of the taxpayers in given groups or in classes.

For example, it would hit individual taxpayers at the same rate, for example. So it would do away with the progressivity in the current tax system, among other things.

Senator GRASSLEY. Yes; I appreciate your answer; although, now this topic is just in the form of a basic discussion. As you know, the American public is looking for some alternatives to our complicated existing formula. Anything new can be complicated too, if we would allow it to be. I suppose we could simplify the existing procedure if we had the inclination to, but sometimes it is easier to go a new route.

My second question is in regard to something you heard me mention to the previous witness. I am subcommittee chairman of the Oversight Committee of the Finance Committee. I need to be apprised of any administrative difficulties you are having in your new position, after you work into the position. If you are encountering problems in collecting revenue that need congressional attention, I encourage you to contact the Subcommittee on Oversight for any help we can give you. I look forward to working with you in the coming years to improve the administration of our tax laws and the collection of revenues. Consider this an open offer.

I am very concerned about the constitutional responsibility we have in oversight to see that congressional intent is followed.

In that same vein, many Members of Congress are extremely concerned about perceived excesses of the Internal Revenue Service in interpreting statutes.

I wanted to ask if you could offer me any insight on how you plan to address this sensitive issue?

Mr. EGGER. Senator Grassley, I have had a number of discussions individually with members of this committee, as well, of course, as the Secretary of the Treasury. We are committed to taking a position to attempt to interpret and apply the internal revenue laws the way the Congress wrote them.

It is not my intention now or in the future to decide for myself or for the agency to decide what the law ought to be. That is the role of Congress. I fully intend to do my best to apply the laws the way they were written. If the laws, because of changed circumstances, create aberrations, then I will be the first one to come back up here and alert you to that fact so that then the Congress can take over from there.

Senator GRASSLEY. My last question, and it is a little more specific, is as follows: in the present funding resolution, the continuing resolution that funds the IRS, there is a funding restriction prohibiting the IRS to spend any public funds to deny private schools tax-exempt status on the grounds that they racially discriminate.

I want to ask if you would respect this funding restriction. The courts have never stated that this restriction was unconstitutional or invalid. In my judgment and that of the Congress, the IRS has uncontroverted orders not to spend money for these purposes.

So, I would like to ask your reaction to that funding restriction and whether you would respect it.

Mr. EGGER. I most certainly will respect that funding restriction. I believe the agency has to date. As you know, we are under a court injunction with respect to institutions in the State of Mississippi. And rather unfortunately, the restriction applies everywhere else in the country with us sort of in a different boat in the State of Mississippi. That creates a problem in my mind.

Senator GRASSLEY. Yes. In the final analysis, it gets down to whether or not Congress is going to decide what money is going to be spent for what purpose or whether the courts are going to make that decision. I hope that you would respect the constitutional power of the Congress over the purse.

Thank you.

Senator PACKWOOD. Senator Boren.

Senator BOREN. Thank you Mr. Chairman.

Mr. Egger, I have a question relating to the administration of the windfall profits tax credit which we passed last year for small royalty owners. And, of course, that is a provision of great interest to many members of this committee. We worked on it very hard because we felt there were a lot ef people particularly in the lower and middle income categories that needed some relief.

Generally, the IRS has done a very good job in implementing this provision on relatively brief notice. But I am troubled by the announcement on February 21, I believe it was, that the IRS intends to impose a late payment penalty on many royalty owners who take advantage of the automatic filing, the 2-month extension that IRS previously announced.

This decision to impose the late payment penalty on royalty owners I think contradicts earlier public assurances by the IRS. I could quote the publication, 553, which was "Highlights of the 1980 Tax Changes" in which taxpayers were advised that there would be no penalty for late filing or late payment if the return is filed by June 15.

Taxpayers were similarly advised that there would be no late filing penalties in the filing instructions on form 6249A.

Many of us have issued press releases ourselves, because we had so many questions. I had literally thousands of questions coming in to my office about it. We have informed people that they would be able to file late without penalty, based on this earlier assurance. They do have very justifiable problems because in many cases they did not receive, will not receive, until late in March or in April, the information back from the companies in terms of the amount of tax withheld.

I wonder, in view of these past IRS announcements and assurances, and the fact the forms have this information on them already, that don't you think the IRS should reverse its latest announced position of February 21, on the late payment penalty and return to their earlier position that has been taken?

Mr. EGGER. Senator Boren, let me put your mind at ease. We have already got that well underway. The announcement should be out very soon reversing the February 21 announcement and going back to our original instructions.

Let me say this. I think there is a real definite question of whether or not the February 21 position isn't the correct position, technically. However, once we made a representation to the taxpayers, then it makes only good sense to live with that right or wrong. I think we made a mistake, but we are going to live with it.

Senator BOREN. Well, I agree with most of what you said; I don't think it is a mistake in that the information, through no fault of the taxpayer is not available to them.

Mr. EGGER. In this particular case, you are quite right.

Senator BOREN. I appreciate your answer. I think it is very important we don't change the rules. The taxpayers are already frustrated enough. We don't change the rules on them in midstream. I appreciate your answer and commend you for it.

Senator PACKWOOD. Senator Baucus.

Senator BAUCUS. Thank you Mr. Chairman.

Mr. Egger, I want to follow up on the point that Senator Boren raised. I am glad to hear too, that the Service is going to change its position on that. I think that people are trying to take advantage of the $1,000 credit and should not be penalized for actions that they can't control. I applaud you for that action.

It does raise the more general question, though, and that is the reduction of employees at IRS. Many people think, in fact, I think most people who have studied the issue believe that the revenue saved the Government administering our tax laws is greater than the revenue lost in paying employees' salaries, at least, at the margin. That is, when we start laying off employees, we start losing more revenue administering the tax laws than we gained and less salaries to these employees. The converse is true as well.

What is your position with respect to the hiring freeze and how many of the—as I understand it, 6,000 employees would be let go or at least not replaced, that you think should be replaced?

Mr. EGGER. Well, that number is simply a number that has floated around the discussions with regard to the 1982 budget, and which of course, are still going on between the Treasury Department and the Office of Management and Budget.

I would like to address your point in a little broader sense and say this. While it is true that if we add more people in certain enforcement areas of the Internal Revenue Service the amount of revenue collected, in general, tends to exceed the cost, and sometimes by several multiples.

It is a little bit too narrow a point, however, because in order to have a balanced system for administration of the tax laws, we have to have not only revenue agents and revenue officers out on the street, but we have to have administrative support. We have to have training. We have to have all sorts of support troops. There is a limit to how much you can add in the way of pure enforcement personnel without at the same time doing violence to your whole ability of balancing——

Senator BAUCUS. As I hear you then, you are saying the Treasury would lose if this number of employees or a similar number of employees were not replaced?

Mr. EGGER. I think it goes without saying that if you reduce the amount of enforcement, you are going to reduce the amount of revenues that would normally be achieved.

Senator BAUCUS. Including the backup support services that you are mentioning.

Mr. EGGER. Well, the backup support services are just essential to a balanced system.

Senator BAUCUS. I guess my main concern is not that Uncle Sam try to collect as much revenue as possible, that is not the point here at all. Rather, it goes to the heart of our tax system which is voluntary compliance.

Mr. EGGER. Yes, sir.

Senator BAUCUS. I am concerned that the more the public gets the feeling the IRS is laying people off, the more some Americans are going to feel, "Well, I guess I don't have to pay as much attention to the tax returns that I otherwise might. I can fudge a little here, fudge a little there and not report here, not report there, et cetera."

The problem we are facing now with voluntary compliance, that is, the underground economy that everybody says is growing, would be an even greater problem.

Mr. EGGER. Well, your point is well taken. We have discussed in the Treasury, and with the OMB, the proper level of enforcement activity given the President's program for making every effort to reduce the number of people in Government. We believe that what we will come up with——

Senator BAUCUS. Are you personally opposed to the hiring freeze for IRS?

Mr. EGGER. Well, I would be opposed to any kind of a permanent hiring freeze. But I think that once the budgets are put in place for the balance of fiscal 1981 and 1982, that we will then be able to work within that budget. I can't believe the freeze is going to be permanent.

Senator BAUCUS. But you are opposed to a freeze?

Mr. EGGER. I would be opposed to a permanent freeze, yes. I understand the President's—the necessity for the President to impose an across-the-board freeze at the very start.

Senator BAUCUS. But that would not apply to the IRS.

Mr. EGGER. It does.

Senator BAUCUS. I mean, do you think it should apply to the IRS?

Mr. EGGER. I have to believe it applies across the board to the Government, until such time as things are in hand and we have a budget within which the agencies can operate.

Senator BAUCUS. So, you would favor the freeze to the IRS?

Mr. EGGER. I certainly wouldn't object to it the way it was done.

Senator BAUCUS. As I understand it, do you favor it or not favor it?

Senator PACKWOOD. Senator Long.

Senator LONG. Thank you Mr. Chairman.

Mr. Egger, I am grateful that you made yourself available for this job. You had, in my judgment, the qualifications. I wish you every success. I have always been a little dismayed with the fact that when we get a bunch of business people together wherever it be at some festive occasion or wherever, someone will present the Commissioner of Internal Revenue and all the fellows will boo. If you haven't had that experience, get ready, because that is the way it works. [Laughter.]

Basically, I guess the idea is that the tax collector has never been a popular job. People mean you no ill will, but they always tend to feel like that.

I think the first time I heard people's reactions, I didn't like them at all because I felt you had one of the most difficult and thankless jobs that this Government has to offer, and anybody who would take it who is qualified, has to be a very patriotic American. I deeply appreciate the service of a man who would do what you have undertaken to go down there and do.

I do think you are going to need more support and the Nation is going to need more support from this Congress if this income tax system is going to work and achieve its objectives.

I think one of the keys to it is to simplify the tax laws to the greatest extent that we can and to make it work so that a person can fill out his own tax return and not be prejudiced that by doing it himself it will cost him money. The simplification will have to cut taxes for people who use that approach compared to what they pay now. At least, I believe that will be the way that will make the system a lot more acceptable.

We simplified the tax system drastically in Louisiana. Before that our income tax had lost all respectability in the State. After the change, it had an enormous upswing in popularity so that I think the confidence rating went from about 6 percent up to about 86 percent. It came about through the overwhelming simplification of our income tax procedure and law in Louisiana.

I hope that you will come up with some suggestions and work with others who want to do that. I think that is the approach you are going to have to take if you are going to have the support of the American people to the extent that we ought to have with this system.

Mr. EGGER. I quite agree with you, Senator Long. There is no question about it. Part of the problem at Internal Revenue today is attempting to administer a law that is as complex as the Internal Revenue Code is now. It will be a genuine pleasure to work with the Oversight Subcommittee, as well as with this committee, to attempt to find ways in which we can simplify and streamline the internal revenue laws from the standpoint of the taxpayers and their attempt to comply, as well as from the standpoint of our role as the administrators.

Senator LONG. Thank you.

Senator PACKWOOD. Senator Symms.

Senator SYMMS. Thank you, Mr. Chairman.

Mr. Egger, I think I would join with Senator Long in congratulating you on being patriotic enough to be willing to take on this task, because I do believe there is probably no Government agency that has a lower public image than the IRS, partially because of the tax laws, how our tax laws have gotten so high as far as the rates are concerned, that it is in people's economic interest to try to figure out how not to pay their taxes. I think if we would simplify the taxing code where we could have the incentive on the side of paying your taxes instead of not paying your taxes.

As a result of this we have the viewpoint of the general public which is not, I think, unearned, that the IRS is a harassing agency that treats honest taxpaying citizens often times the same as they treat those people who are trying to avoid paying their taxes.

So, I wish you well on that. I would hope that you would enter in as part of your responsibilities to make positive suggestions in simplifying the tax form in this country. I think what we really should have is a flat income tax and get rid of the progressive tax. That is my personal opinion. But, I think we are aways away from that because we can't get from here to there overnight.

But, I hope that you will try to send the word down through the ranks of the IRS to use as much as you said in your statement, to be a public service to the public, instead of a harassing agency, as so many people view them today. I wish you good luck in your endeavors in the future. I hope that you are very thick skinned. Because I think, as Senator Long says, you will need to be to fill those shoes. I am sure you are aware of that from your background which certainly looks as though you are qualified for the position. I wish you every success.

Mr. EGGER. Thank you, Senator Symms. I might say I appreciate very much the comments that you made, as well as those of Senator Long. One of our real objectives is going to be to try to elevate the image of the Internal Revenue Service. I hope to find that in another 2 years or whenever, that people are not quite as down on the agency as they are today or seemingly are.

We would like to find opportunities for the media and the news and the Members of Congress and everybody else to be praising the Internal Revenue Service and congratulating them on being a service to the taxpaying public.

You know, back in 1952 or 1954, the name of the agency was changed from the Bureau of Internal Revenue to the Internal Revenue Service. The real reason for that name change was to carry out the implication that the agency is there to be of service to the taxpaying public.

So, we want to make sure that that name is for real.

Senator SYMMS. Well, I thank you very much. I do think that recommendations from you as the Commissioner, pointing out some of the areas where we have a taxing code, that as the President said in his address to the Congress that our taxing code is supposed to be to raise revenue for the legitimate purposes of Government, not for social engineering or somewhat those words that he used.

When we have taxing laws like the excessive rates on the progressive income tax, the death tax and other taxes which are truly put in to the system for redistribution of the wealth and not for raising revenue, that we can get some figures—for example, on the death tax, for the grave robber's tax of how much it costs to try to go through these estates out there and how much wasted effort and estate planning and so forth goes on also in the private sector which is truly just a waste of our work and our effort in this country and does nothing to increase productivity and raises very little revenue for the Federal Treasury that it might be much simpler if we had a simplified tax form and did away with those things and left some incentives in for people to produce more. I think the country would be much better off.

I think that you do have a big responsibility to try to enforce the present tax code which is so unfair.

Mr. EGGER. Well, I shall look forward to working with you to achieve those objectives. I certainly agree with them. I will try as best I can to see to it that we don't make it more difficult for the citizens of this country to pay their taxes than it already is.

Senator SYMMS. Thank you, Mr. Chairman.

Senator PACKWOOD. Senator Grassley asked about the gross income tax. Frequently tax reformers come before this committee with that theory. The one thing they never realize is that if we are going to try to encourage something beyond what the marketplace would otherwise encourage, I think we only have two directions to go. One is the so-called tax expenditure or using the tax code as an incentive, and the other is the the route of appropriations and Government programs.

Mr. EGGER. Yes, sir.

Senator PACKWOOD. Take housing, for example. The mortgage interest deduction is indeed a tax expenditure. We think it is wise to encourage home ownership in this country and hopefully that policy helps to encourage it.

Let's assume that we didn't have tax incentives, that we had a gross income tax but we still wanted to encourage housing beyond the marketplace. Then we would have to have something administered by the Department of Housing and Urban Development or some other department to which you would apply if you wanted to build a house and they might or might not give you a grant. I have no idea what plans and specifications you would have to submit to them before you received your grant. But that is the other side of the coin. I think often advocates of the gross income tax lose sight of what the horrible alternative may be if we are going to undertake programs that will encourage the same things that tax expenditures now encourage.

Mr. EGGER. There is certainly no question about it, Mr. Chairman. Many of the areas of the tax code, you certainly picked on one of the obvious ones, would be almost impossible to achieve the same result through a spending program as is achieved through the tax advantage of deductibility of mortgage interest.

So, I certainly agree with you.

Senator PACKWOOD. We have gone through our first round of questions, we will keep going as long as any Senator has questions.

Senator Grassley.

Senator GRASSLEY. I have no further questions.

Senator PACKWOOD. Senator Baucus.

Senator BAUCUS. Just following up on the chairman's point, Mr. Chairman, I think that makes a very good point about public policy that encourages housing.

One question on my mind is the degree to which we want to use the mortgage interest deduction to encourage housing. We can get to the question of second and third and fourth homes. I mean, does it make sense for us because of the full deduction of the mortgage interest and the taxes on the second and third and fourth home, and even the down payment that is borrowed, the interest on the down payment that is borrowed for that third and fourth home, to what degree do we go that far.

I am really asking the question even more fundamentally than that, and that is our savings rate in this country which is dismally low as compared with the savings rate in other countries.

Japan, for example, I am told—everybody throws figures around, I can only play back what I hear, is that Japan has a savings rate of 20 to 25 percent. That is, the Japanese people save 20 to 25 percent of their income.

Whereas, in America, the savings rate is roughly 3 percent. It is very, very low.

I am also told, in Japan, for example, that a Japanese taxpayer can effectively deduct the first—and here we have a tax expenditure again, but deduct the first $65,000 of interest income. That encourages that person to save. It is interest income rather than interest expense, which is a tax expenditure. But, it is a certain kind of tax expenditure. It is encouraging people to save more.

Our tax expenditures, to a large degree, I am just talking aloud here because I am trying to find a policy that makes sense for our country, to a large degree encourages consumption. It is the interest expense that is deducted for all the homes, the fifth and sixth home.

The same thing goes to consumer credit. So much is tax deductible now, so we are encouraging people to consume much more rather than save.

I just encourage the administration and whoever may be listening to this dialog here to look at all tax expenditures to again see which ones make sense. Some do make sense. They make a lot of sense. We should have them. But I think the past Congress has too easily and with great facility enacted tax expenditures without looking to see what the actual effect is, that looks to the overall economy.

Thank you, Mr. Chairman.

Senator PACKWOOD. Senator Symms, any other questions?

Senator SYMMS. No, Mr. Chairman.

Senator PACKWOOD. Thank you. Good luck.

Mr. EGGER. Mr. Chairman, I have a statement here which I would like to go in the record.

Senator PACKWOOD. That will be placed in the record at the very start of the hearings on your nomination.

Mr. EGGER. I thank the chairman.

Senator PACKWOOD. Thank you, and again, good luck in this position.

[Prepared statement of Mr. Roscoe L. Egger follows:]

STATEMENT OF ROSCOE L. EGGER, JR., AT HIS CONFIRMATION HEARING, FOR COMMISSIONER OF INTERNAL REVENUE

Mr. Chairman, I am very pleased to be here this morning as you consider my nomination by the President for the Office of Commissioner of Internal Revenue.

I believe it might be useful to the Committee if I could set forth a few basic objectives I would propose to pursue immediately if I were to receive Senate confirmation.

In the role of Commissioner of Internal Revenue it would be my fundamental obligation to safeguard and to enhance the effectiveness of our self-assessment tax system. This system as I see it relies heavily on three basic elements.

First, it is essential that the IRS be—in fact as well as in perception by the public—a competent and efficient organization that treats people with fairness, objectivity and respect. The IRS must live up to its name and be in fact a service to the taxpaying public. The IRS must assure that taxpayers understand their rights and their obligations. They deserve to have this presented to them in understandable language. In addition, taxpayers should have reasonable service and assistance to comply with the law.

Second, the honest taxpayers of this country deserve the assurance that others are paying their share of the tax burden and that those who purposefully violate the law will encounter swift and certain consequences. One area requiring immediate attention is the apparent spread of illegal tax protester movements, which, no matter how small, have the potential to erode the self-assessment and voluntary compliance system. In addition, we must find a way to deal with the growing use of abusive tax shelters.

Third, I would hope to mark the beginning of my tenure as IRS Commissioner with a sound working relationship with this and other committees of Congress—I believe much can be accomplished through better communication and better understanding as we wrestle with sometimes very difficult issues. I believe this should be of help to the Congress in carrying out its responsibilities as well as to help in the orderly administration of the tax laws.

Finally, with these three elements leading the way, the IRS will and must improve its current image to gain wider public confidence and respect and to bolster voluntary compliance.

Mr. Chairman, I thank the Committee for this opportunity, and I would be pleased to respond to any questions you or the other members of the Committee may have.

Senator PACKWOOD. Last, we will hear from Dr. Paul Craig Roberts who is nominated to be Assistant Secretary of the Treasury for Economic Policy.

[The biographical data of Dr. Paul Craig Roberts and a letter from the Office of Government Ethics follow:]

BIOGRAPHICAL SKETCH OF PAUL CRAIG ROBERTS

Born Atlanta, Georgia, April 3, 1939, Dr. Roberts was educated at the Georgia Institute of Technology (B.S., Industrial Management), the University of California at Berkeley, the University of Virginia (Ph.D., Economics), and Oxford University where he was a member of Merton College.

He has held academic appointments in the Hoover Institution at Stanford University and in the economics departments of Virginia Polytechnic Institute, Tulane University, the University of New Mexico, and George Mason University.

In the U.S. Congress he has served in the House of Representatives as Economic Counsel to Representative Jack Kemp, as Staff Associate with the Defense Appropriations Subcommittee, and as Chief Economist with the Minority Staff of the Committee on the Budget. In the U.S. Senate he has served as Economic Counsel to Senator Orrin Hatch. He managed the tax-cut movement in the U.S. Congress during 1975-78 and drafted the original version of the Kemp-Roth bill.

With the Wall Street Journal, he was Associate Editor of the Editorial Page and columnist for "Political Economy."

Currently he is Senior Fellow in Political Economy at The Center for Stretegic and International Studies at Georgetown University, Professor of Business Administration and Professor of Economics at George Mason University, Wall Street Journal columnist for "Political Economy," and Contributing Editor to Harper's.

Dr. Roberts is the author of two books and has published articles in the Journal of Political Economy, Oxford Economic Papers, the Journal of Law and Economics, Public Choice, Ethics, Classica et Mediaevalia, Slavic Review, Soviet Studies, Banking, the Wall Street Journal, The New York Times, Harper's, The Public Interest, the Journal of Monetary Economics, the Public Finance Quarterly, and other publications in the United States and Europe.

Dr. Roberts is a member of President-elect Reagan's Task Force on Tax Policy.

OFFICE OF GOVERNMENT ETHICS,
OFFICE OF PERSONNEL MANAGEMENT,
Washington, D.C., January 27, 1981.

Hon. ROBERT DOLE,
Chairman, Committee on Finance,
Washington, D.C.

Dear Mr. CHAIRMAN: In accordance with the Ethics in Government Act of 1978, I enclose a copy of the financial disclosure report filed by Paul C. Roberts. President Reagan has announced his intent to nominate Mr. Roberts for the position of Assistant Secretary for Economic Policy, Department of the Treasury.

We have reviewed the report and have also obtained advice from the Department of the Treasury concerning any possible conflict in light of the Department's functions and the nominee's proposed duties. We understand that Mr. Roberts has been granted a leave of absence from Georgetown University where he was a Senior Fellow and at George Mason University where he was a professor. He is also a contributing editor to Harper's Magazine. The Department of the Treasury's Designated Agency Ethics Official has advised that there is no inherent conflict with regard to such positions. Performance of any activities in connection with these positions, however, is subject to approval by Mr. Roberts' supervisor in accordance with Department of Treasury regulations. Mr. Roberts has indicated that he has divested himself of his financial interests in Treasury Bond Futures. He has also been advised that he may not speculate in money market funds during his tenure as Assistant Secretary.

Subject to the aforementioned approvals and divestiture, we believe that Mr. Roberts will be in compliance with applicable laws and regulations governing conflicts of interest.

Sincerely,

J. JACKSON WALTER, *Director.*

STATEMENT OF HON. DR. PAUL CRAIG ROBERTS, TO BE ASSISTANT SECRETARY OF TREASURY FOR ECONOMIC POLICY

Senator PACKWOOD. Dr. Roberts, welcome. You are one of the better known experts in this country, one of the better known exponents I should say of the supply-side theory of economics. I read your articles in the Wall Street Journal frequently. The theories are undoubtedly going to be questioned and pushed and pulled. And, there is probably nobody better prepared to defend them than you.

Let me simply ask you this. Have you discussed any possible conflict of interest with the committee's chief counsel?

Dr. ROBERTS. Yes, sir, Mr. Chairman, I have.

Senator PACKWOOD. Have any possible conflicts of interest come to your attention either as a result of that meeting or otherwise?

Dr. ROBERTS. No, sir.

Senator PACKWOOD. Do you have a statement you wish to make?

Dr. ROBERTS. Well, I would just say I greatly admire and respect the Finance Committee. I look forward to working with the members of the committee and the staff.

Senator PACKWOOD. Let me ask you the question that I asked prior to this meeting. I am quoting here from figures supplied by the Organization for Economic Cooperation and Development, which is a respectable organization. I think its figures are probably reasonably accurate. What they have are a series of figures for the different countries that belong to this organization. All of the major industrial countries and many who are not major industrial countries belong to it, showing the percentage of tax that is levied by the country, and they are counting all taxes, local, State and Federal.

It shows the United States at a relatively low rate of taxation in comparison to almost all of the other countries. Japan is an exception. Switzerland and Spain are slightly below us. But all of the rest levy taxes substantially higher in total than ours.

How do they manage to do that and at the same time, in every case of the top seven industrial countries, be ahead of us in increases in productivity.

Dr. ROBERTS. Mr. Chairman, there is a great difference between the average tax burden on an economy and the marginal rate of taxation on income. The United States perhaps has a system which more than others taxes income from savings very highly. There seems to be a very strong bias in our tax system against income from savings.

We also have very high marginal rates of taxation that are effective on the work effort of just ordinary people. Now these two——

Senator PACKWOOD. Now say that again.

Dr. ROBERTS. Well, we have many people today in this country in the labor force who are in the 40- to 50-percent marginal tax bracket. That is, even though their average tax rate may be much lower, the rate of taxation on additions to their income is quite high. It serves as a tax brake which tends to retard their incentive to——

Senator PACKWOOD. But that is a tax level on people who would—I would take a guess, be above about $45,000 adjusted gross income, isn't it?

Dr. ROBERTS. If you count the burden from the standpoint of their State and local taxes, the social security taxes, Federal income taxes, then we have a goodly number of people who would be faced with very high marginal rates of taxation, such that additions to their income are heavily taxed.

Senator PACKWOOD. Let me ask you this. Let us take higher than 40 percent. France is at 42 percent, 10 percent above us, Austria is at 39 percent. All I can conclude is that if they are not taxing savings and capital and investment as highly as we are, they must be levying taxes on middle and lower income groups to a greater degree than we are to reach that total per capita level of taxation.

Dr. ROBERTS. I don't know the details of all the countries' tax codes, but many of them have value added taxes which are levied on consumption rather than savings.

As Senator Baucus noted, the Japanese, for example, I believe exempt for a family of four from taxation the savings income on a sum of capital up to $205,000.

I believe also, though I may be wrong, that the Japanese do not add on the income from saving at the top rate of personal income tax applicable to the taxpayer.

Senator PACKWOOD. Well, this an accurate rule, and I agree with that, I also agree with what Senator Baucus said. I think that is a direction in which we ought to be moving. But is it a fair statement to say that most of these other industrialized countries have managed to keep their increases in productivity ahead of ours. They have shifted the incidence of taxation off of capital, off of wealth, off of savings, and shifted it on to consumption, the great proportion of which is paid by what you might call the middle income or lower income wage earning class.

Dr. ROBERTS. I don't know if it is true in every case, but it is certainly true in some of the cases that the burden on income from savings is very low compared to that of the United States. And this seems to affect the savings rate. With the lower savings rate you seem to have a lower rate of additions to your capital stock and lower productivity.

This is the way that a low saving rate feeds back and harms people in the lower income brackets because it denies them the ability of more productive labor to sell in the market, at a higher real wage.

Senator PACKWOOD. I will come back when it is my turn again. Senator Grassley.

Senator GRASSLEY. Thank you, Mr. Chairman.

Dr. Roberts, my question relates to a tool of your trade. Obviously, you are one of the individuals involved with the development of supply-side economics. Along that line, the tools that are used by most economists are economic models. I am interested in whether or not the IRS is planning to develop their own model for economic planning purposes or whether you are going to use current models.

Dr. ROBERTS. I couldn't speak for the IRS, Mr. Egger, on what he needs.

Senator GRASSLEY. OK. Let me say in regard to the Treasury Department, I shouldn't have limited it to the IRS.

Dr. ROBERTS. Yes sir, Senator. I think the Treasury Department, if we find we have time, will certainly try to acquire more sophisticated modeling capability in order that we might have some more precise way of estimating the effects of tax policy on the economy.

In the large commercial econometric models that we have been relying on for a number of years, changes in taxation largely affect the economy by changing demand in the economy.

We are interested to try to improve the capability of these models by being able to show how they also affect incentives and thereby the response on the supply side of the economy directly rather than through just responding to an increase in demand.

Senator GRASSLEY. One of the arguments we will run into in selling supply-side economics is the amount of reflows that result from the tax decisions we make now—for the near future as well as long term.

The models are directly related to the ability to measure that reflow. I see a necessity, and I hope you do, of refining those models so that those reflows are measured adequately, and whether you see in the very near future the ability to refine those models so that we can show what we believe in theory can be shown in fact. Only then will we be able to offset the arguments that the type of tax cuts we are talking about are very inflationary.

Dr. ROBERTS. Yes, sir. I certainly agree with you. It has long been the concern of other members of this committee that we have ways to estimate the revenue effects of tax law changes other than the misleading measure kinds of static revenue loss.

The Treasury, I am sure, will be making strenuous efforts to improve the ability to get more sophisticated revenue measures.

Senator GRASSLEY. We have a very short time to solve our economic problems. They must be answered in the short term. We have only 3 or 4 months to pass a tax bill, if a clean tax bill is to pass by both Houses by June. We don't have much time to do it and we need information.

Do you see any effort in shortening that period of time?

Dr. ROBERTS. Yes, sir. The changes or the reflows, if you like, from tax law changes are not just the revenue reflows. There are also what happens to the pool of savings. We are busy at work trying to get reliable estimates on that.

Senator GRASSLEY. So that you do feel like we will have some of the information we need in the next few months to answer some of these problems that are going to confront us as Republicans?

Dr. ROBERTS. Yes, sir.

Senator GRASSLEY. Thank you, Mr. Chairman.

Senator PACKWOOD. Senator Bradley.

Senator BRADLEY. Thank you, Mr. Chairman.

Let me just follow up on what Senator Grassley said. Is there a supply-side model in existence today?

Dr. ROBERTS. Yes, sir. As an analytical model, there is a supply-side model.

Senator BRADLEY. Where is that?

Dr. ROBERTS. Well, this would be—I suppose you could say there are several in several different places. Dr. Norman Ture has over the years done a great deal of work developing the analytical supply-side relationships. This sort of modeling capability, of course, is present.

We also have——

Senator BRADLEY. Where is that? I mean, for example, with DRI or with Chase or whatever you can crank in some figures and you will get what the GNP, inflation, unemployment, interest rate projections would be.

Is that the kind of thing Dr. Ture has?

Dr. ROBERTS. Dr. Ture's model would not be a forecasting model.

Senator BRADLEY. It will not be a forecasting model. Is there a supply-side forecasting model?

Dr. ROBERTS. Well, the Finance Committee itself commissioned Michael Evans to produce a supply-side model for the committee. I don't know the state of development of Mr. Evans' activities in this regard. But I do know that that is something that must be in some state of development.

I do know that Mr. Evans very successfully developed the Chase Econometric model and also contributed very much to the development of the Wharton Model. So, he does have these modeling capabilities and the Finance Committee has seen fit to employ them.

There are also other activities under the direction of other people who tend to model these effects and capture them at least in part. There are models of the financial sector which try to incorporate supply-side effects. Any combination of these efforts may very well——

Senator BRADLEY. Yes. What I am getting at is that there are policies proposed. Policies say that the following things will happen. You crank the policies into a model and the numbers come out quite differently than the proponents of the policy say. Their response is, "Well, that is a Keynesian model."

So, if you want to have some sense of what the forecast is, where is there a model that we can actually look at so we can juxtapose the Keynesian and the supply-side assumptions as we crank in tax reduction or specific incentives for investment, things like that.

Dr. ROBERTS. What you may find difficult to find any more is the pure Keynesian model. Under the impact of the change of mind brought about by supply-side economics, even many of the pure Keynesian models are starting to change themselves.

You no longer, for example, will be told by the large Keynesian models which the Government was relying on heavily for forming its economic policy, you will no longer be told that if you cut the corporate income tax rate, investment and gross national product would fall. But that was the case only a few years ago.

Senator BRADLEY. So you are saying, therefore, that most models are not Keynesian, but they will reflect more general assumptions—so that when a model puts out a result, you can't say those results aren't valid because you were using a Keynesian model. By your own testimony there are no Keynesian models.

Dr. ROBERTS. I think the models are in a state of development. Some are more advanced than others. But I think that there are very few people any more who want to defend the Keynesian system of relationships. They found that to be very uncomfortable.

They are moving on their own away from that. At least that is what they tell me.

Senator BRADLEY. Would you say that a propensity to save is constant over time?

Dr. ROBERTS. No, sir, I wouldn't.

Senator PACKWOOD. What is the question?

Senator BRADLEY. The propensity to save, is it constant over time?

Dr. ROBERTS. I would say it is related to the marginal rate of taxation on savings income. If that is constant, then you might be able to say that, because of that reason, there was some constancy. But it is not constant in the sense that it is a given from above, or is something that we live with regardless, something that would not respond to the rate of taxation on savings income.

The higher that rate of taxation, the lower you would find the savings rate. The lower the rate of taxation, the higher you would find the savings rate.

Senator BRADLEY. Thank you.

Senator PACKWOOD. Dr. Roberts, let me go back to the question I was pursuing and give you these figures. First are the increase in productivity figures of the seven largest industrial countries in the world. I use those as a model because it would be a lot easier to have a high increase if you were an undeveloped country like Saudi Arabia and started from a very low base. But these are the seven largest. They are for the years 1960 to 1979. The source is the U.S. Department of Labor. This is the percentage increase in productivity.

Japan, 8.3; Italy, 6.1; France, 5.6; Germany, 5.4; Canada, 4; the United Kingdom, 3.2; the United States, 2.5, last, of all the major industrial countries.

Next, let me give you the current revenues of those countries from all sources of taxation, national or local, as a percent of the gross national product.

The United States, 32.6; the United Kingdom, 38.8; Canada, 35.8; Germany, 43.3; France, 42.3; Italy, 37.4; and Japan, 24.3. Only Japan is lower than we are.

Dr. Roberts, I would put to you this premise. They have achieved the rates of productivity they have achieved because they have shifted the incidence of taxation to middle-income taxpayers or maybe even lower income taxpayers via consumption taxes.

Dr. ROBERTS. I don't know if that is so or not. It may be, Senator. I think I would say that at least in part, they have shifted the burden of taxation away from productive efforts or from factors of production.

Senator PACKWOOD. Well, who have they shifted it to? With the exception of Japan, they all tax their citizens more than we do. If they have shifted away from production and away from capital and away from savings, to whom has it been shifted?

Dr. ROBERTS. Well, I think that the point I am trying to make is it is the rate of tax at the margin.

Senator PACKWOOD. I understand that.

Dr. ROBERTS. And not the average tax burden that I think is the most important determinant of their performance. Now I may be wrong. It may be that it is a matter of shifting the burden of taxation.

Senator PACKWOOD. Should any tax policy that the United States undertakes endeavor to tilt more significantly toward reducing the rates at the margin encouraging saving, encouraging productivity, than simply cutting rates across the board?

Dr. ROBERTS. Well, cutting rates across the board does reduce the rate at the margin for everybody across the board.

Senator PACKWOOD. I understand that.

Dr. ROBERTS. People are in different parts of the tax brackets.

Senator PACKWOOD. I am saying should we tilt it? Should we give preference as a matter of tax policy toward tilting in favor of encouraging saving, encouraging productivity, and tilting toward higher tax reductions at the margin to encourage those ends?

Dr. ROBERTS. I think another way of putting the same thing is, we need to reduce the biases in the tax code which tax savings income much more severely than, say, income used for consumption. That then would be my way of savings; yes, what you say is what we need to do.

Senator PACKWOOD. In that case then, rather than an income tax cut across the board of 10 percent a year for 3 years, wouldn't we be better to skew that toward those who would be more likely to save and invest a larger portion of their income?

Dr. ROBERTS. But people are scattered through the tax brackets, and all of them are people who make decisions about work and leisure and about consumption and savings. We can't just assume that savings only exist, or the inclination to save is concentrated in some particular part of the tax bracket.

We also have to allow for the fact that people move through these tax brackets. One of the best ways of helping them to move into the higher tax brackets is to make it possible for them to have high productivity, higher wages, more savings income.

Senator PACKWOOD. I don't follow your theory. You say that these people are scattered all through the tax brackets and if we reduce the taxes equally along the way that is fine. That doesn't seem to me to square with your theory of the margin.

Dr. ROBERTS. Yes, because each individual is at the margin.

Senator PACKWOOD. Well, I understand that. Everybody is at a level of taxation that goes up if their income goes up.

Dr. ROBERTS. Yes, sir.

Senator PACKWOOD. What you are saying is that we don't really need a special tax incentive to encourage savings or a special tax incentive for capital gains. We just cut everybody's income tax and they are all at a marginal rate because it is all relative to the next rate, and that is the most effective way of achieving what we want.

Dr. ROBERTS. It is a very efficient way.

Senator PACKWOOD. I said effective. Is that a better way to achieve increased productivity, to increase savings, increase investment, than the way Senator Baucus referred to of giving a very large incentive for savings?

I mean if you have $55,000 tax exempt in savings each year, per person, from tax, that is obviously not tilted toward the person that makes $20,000 a year.

Dr. ROBERTS. But one advantage of the across-the-board rate reduction is that it not only raises the after-tax rate of return to savings income, and it not only lowers the tax advantage of the deductibility of interest paid, but it also, in addition to what it does with the saving incentive, it also aids the work incentive. It also aids the decisions of individuals to invest in human capital. It also has the effect of lowering the capital gains tax rate. It also reduces the taxation on investment income, in general, and on all unincorporated businesses.

Senator PACKWOOD. So your conclusion is that——

Dr. ROBERTS. It is a combination of doing a lot of things.

Senator PACKWOOD. What I want to know, in your estimation, is the best policy for encouraging savings, investment and productivity? Is it the policy that the President is advocating, the across-the-board 10 percent tax cut?

Dr. ROBERTS. I think at this time it is, given the position of the taxpayers in the tax bracket.

Senator PACKWOOD. Senator Grassley.

Senator GRASSLEY. I have no further questions.

Senator PACKWOOD. Senator Bradley.

Senator BRADLEY. Thank you Mr. Chairman.

I would like to get to the assumption that if you increase savings you inevitably increase investment. You would accept that, right?

Dr. ROBERTS. Well, it is very difficult to have anybody make any investments if no one is doing any saving in real terms.

Senator BRADLEY. Right. How does the fact that there is an open world economy affect the various incentives that one might put in place in one's domestic economy?

Dr. ROBERTS. I would imagine it could affect it in any number of ways.

Senator BRADLEY. Well, let's say that you have a low saving incentive. Would you then say it is less likely that you would get investment in your country?

Dr. ROBERTS. Yes. You see, the reason for the low savings incentive may well be that the rate of taxation on the income from investment is very high. So, you would have a hard time attracting foreign investment into that situation if it were subject to your tax law.

Senator BRADLEY. So, are you saying that investment then in country X, Y, or Z, comes primarily from the domestic savings of that economy or might it come from the international economy? From the savings in the international economy?

Dr. ROBERTS. Well, if you are going to attract foreign investment, unless it is some sort of government-to-government grant or loan, you are going to have to have something to attract it with. If it is not a reasonable rate of return, then you couldn't expect to be able to attract foreign investment any more than you could expect that you could raise the domestic savings for that investment.

So, if the foreign investors are subject to your income tax, then you will have a very difficult time attracting foreign investment to make up for a low savings rate domestically, if that is due to the high taxation of investment income.

Senator BRADLEY. So, if you look at the numbers that Senator Packwood read about the relative tax percent of GNP in all the countries, countries like Germany and Italy and France would not be able to attract money from outside their own boundaries because their tax rates are very high?

Dr. ROBERTS. Well those again are average tax rates. I think in many of those countries, for example, there is no capital gains tax.

Senator BRADLEY. So you think if we eliminated the capital gains tax we could then finance our investment out of foreign savings because there would be an incentive to invest in the country?

Dr. ROBERTS. Well, it would certainly help. It is one way of reducing part of the tax burden on savings income.

Senator BRADLEY. What if we eliminated withholding on interest only for foreigners?

Dr. ROBERTS. Why should you want to encourage the foreigner to——

Senator BRADLEY. Well, the question is how you attract foreign savings into investment into this country. What if you eliminated withholding on interest in Government bonds?

Would that be an incentive?

Dr. ROBERTS. I suppose there are any number of ways you could attract foreign investment and if you don't tax the interest on the bonds and so on. That should attract them.

Senator BRADLEY. What about if you index bonds? Would you be in favor of that, indexing the principal of the bond?

Dr. ROBERTS. The principal of the bond to the inflation rate?

Senator BRADLEY. Right. Would you be in favor of that?

Dr. ROBERTS. Oh, I would have to think about that.

Senator BRADLEY. What would be your analysis right now? What are the pros and cons that you would weigh?

Dr. ROBERTS. I would rather beat inflation, remove that as a problem.

Senator BRADLEY. What is the difference then between compound interest rates of 17 and 18 percent and an indexation of the bond for Government finance?

What is the difference in the economic sense?

Dr. ROBERTS. I don't know exactly what you are getting at.

Senator BRADLEY. If the Treasury is responsible for interest at 17 and 18 percent over 7, 8, 9, 10 years, that interest reflects the inflation rate. Therefore, if inflation stays high you are going to continue to have to pay that kind of interest rate. If interest rates come down you won't have to pay that high interest rate.

Dr. ROBERTS. That is right.

Senator BRADLEY. What is the difference between that and indexing the principal? If inflation continues you will have to pay a higher premium on the repayment of principal. If inflation comes down you won't have to pay. What is the difference in your view?

Dr. ROBERTS. I would have to think about that very carefully.

Senator BRADLEY. Well, could you and could you provide a response in writing prior to the next meeting of the committee and the floor action?

Dr. ROBERTS. Yes, sir.

[The information follows:]

Indexing the bond's principal would prevent capital gains and losses on bonds due to changes in the inflation rate, and bond prices would acquire the characteristics of short-term bills.

Senator BRADLEY. Mr. Chairman, are we allowed to continue?

Senator PACKWOOD. Neither of us have any questions. Please continue.

Senator BRADLEY. Good.

I am curious about your view as to the U.S. contribution to the World Bank, particularly the hydrocarbon fund.

Dr. ROBERTS. The which fund?

Senator BRADLEY. The hydrocarbon fund. The situation is this. There is a limited supply of oil in the world. A lot of oil may yet be discovered, particularly in the Third World. The World Bank, 2 years ago, issued a study saying you could get about 3 million more barrels of oil out of Third World countries with appropriate levels of investment. They propose establishing a hydrocarbon fund in which World Bank funds could be used to finance exploration in new or relatively remote areas of the world.

The administration has said that they want to cut off a lot of this aid because they feel that the private sector will develop the oil. My question to you is, do you agree with that judgment?

Dr. ROBERTS. Well, I think that if there is oil there to be explored for and found, that the normal incentives generally are sufficient. I wouldn't know why you would need to make it somehow even more of an incentive to go and explore and find oil.

Senator BRADLEY. So you would not be in favor of that problem?

Dr. ROBERTS. The hydrocarbon fund?

Senator BRADLEY. Yes.

Dr. ROBERTS. I don't believe I would, Senator.

Senator BRADLEY. If you are Gulf Oil and you are thinking about investing in exploration off Angola, how do you assess political risk in your expected rates of return?

Dr. ROBERTS. I don't know how Gulf Oil does that.

Senator BRADLEY. Do you think that there should be any calculation of political risk?

Dr. ROBERTS. I am sure they make that, sir.

Senator BRADLEY. Do you think the World Bank's participation affects the political risk?

Dr. ROBERTS. It may affect it in either way.

Senator BRADLEY. How would it hurt it?

Dr. ROBERTS. Well, I don't know all the details of how the World Bank participates, but if they participated in a way with various forms of guarantees or something that means that the people who assess the risk underestimate it and if the burden of any sort of confiscation or nationalization would be shifted to an international agency, then that might tend to raise the rate at which risk actually occurred.

Senator BRADLEY. At which the risk actually occurred?

Dr. ROBERTS. Yes; or the nationalization or confiscation. In other words, I don't know if it is the case, but it is certainly possible that the involvement of third parties could in some way shift the cost of any nationalization to a third party fund, in which case the risk of nationalization may increase.

Senator BRADLEY. So you are saying that here is Gulf Oil or another company, Panhandle Oil, whatever, they are assessing investment off the coast of Peru. And, ~~because~~ the World Bank is going to be involved, they will be more likely to make the investment because they are anticipating nationalization anyway and part of the cost of the nationalization will be defrayed by the World Bank? Is that what you said?

Dr. ROBERTS. I don't think so. I was just answering your question in a general way, since I don't know the specifics of how Gulf Oil, for example, assesses risk in a situation like that, nor do I know the specifics of how they might assess risk in the context of the World Bank being involved.

But, I was just trying to answer it in a general way if the involvement of a third party presents the person assessing the risk with the possibility that the burden of error can be shifted to a third party, then they will perhaps be inclined to underestimate the risk. It then could cause some misallocation of investments across the whole spectrum of risk taking.

I was just trying to offer an answer in a general way, because I cannot, I don't think, answer at this time in a specific way that you are asking.

Senator BRADLEY. That would imply a fairly large participation by the third party, wouldn't it? I mean, do you think that would be the case if it was a 5-percent participation?

Dr. ROBERTS. Obviously, the larger participation the more the possibility of what I outlined. But how small the participation has to be before it has no effect I wouldn't know.

Senator BRADLEY. Let me ask you about the foreign tax credit. I think you were here when Senator Bentsen asked Mr. Chapoton about it. Do you think there is a reason to keep the foreign tax credit for oil and gas extraction income?

Dr. ROBERTS. In these matters, Senator, this will be a matter for the Tax Policy Section of the Treasury. If I see that it is having some sort of economic effect one way or the other that they may not be noticing, I would try to call it to their attention.

Senator BRADLEY. So you are not going to have any role in that at all?

Dr. ROBERTS. I don't think so, sir, other than perhaps pointing out any economic effects.

Senator BRADLEY. Do you think there would be any economic effect? That is my question. If you eliminated the foreign tax credit for oil and gas would there be an economic effect?

Dr. ROBERTS. There are very few things you can do in the world that don't have economic effects.

Senator BRADLEY. Well then, you should be able to comment about that.

Dr. ROBERTS. Yes, sir; but I would—it is just something I would want to again consider carefully, and not just give a flat answer without considering something like that carefully.

Senator BRADLEY. Let me ask you one other question because I know that the chairman wants to get on with this. I see my note. Going back to the question of the World Bank and the hydrocarbon fund, and the reason I ask this is, I really think it is an economic question. What is at issue is whether there is a security premium or a price premium associated with bringing on 3 or 4 million barrels a day of additional oil supply in countries outside the Persian Gulf. If you think that the premium is sufficiently large, then it is reasonable to encourage the production of that oil and gas. Among various ways of doing so would be various tax expenditures. Another way to do that would be the involvement of an international financial institution.

So, I hope that when you are responsible for economic policy at the Treasury, that you will see that these things are interrelated.

Dr. ROBERTS. Oh, I agree they are interrelated.

Senator BRADLEY. Well, do you have any idea what the additional 3 or 4 million barrels a day might mean for the price or security of our oil supplies?

Dr. ROBERTS. I couldn't answer that just sitting here, Senator, other than the more oil, the better off we are.

Senator BRADLEY. OK. No further questions.

Dr. ROBERTS. I wouldn't make a decision about that without trying to have an answer.

Senator BRADLEY. Thank you very much.

Senator PACKWOOD. I have no other questions. Thank you very much.

Dr. ROBERTS. Thank you Mr. Chairman.

Senator PACKWOOD. I would move that the committee report favorably the nominations of Mr. Chapoton, Mr. Egger, and Dr. Roberts.

Is there any objection?

[No response.]

Senator PACKWOOD. If not, let us adjourn.

[Whereupon, at 11:31 a.m., the committee adjourned, subject to the call of the Chair.]

O